

London Hydro

Security Deposit Policy
For Customers
&
Prudential Policy
For Retailers

Board Approved June 2005
Effective July 4, 2005

General Service Customer – changes approved March 21, 2006

Security Deposit Policy for Customers & Prudential Policy for Retailers

(Board Approved June 2005)

INTRODUCTION

This credit policy has been issued in compliance with the OEB's rules and codes, especially with the Retail Settlement and Distribution System Codes that became effective on February 3, 2004.

OVERVIEW

A Security Deposit/Prudential Policy for Residential, General Service, Interval Metering and Retailer Customers, owners and tenants alike, is required to ensure London Hydro's receivables are secured and to protect against the risk of payment default.

The extent of this policy includes all customers and retailers (except those billed by a competitive retailer under Retailer-consolidated billing) including Standard Supply Customers and Distributor Consolidating Billed Customers.

It is understood this policy, where required, will cover the water services for the purpose of receivable security subject to any City of London bylaws.

This policy forms sections of the Condition of Service Document.

PURPOSE

This policy is required to protect London Hydro's receivables by obtaining security deposits which provides a guarantee where customer/retailer risk of default is evident, and when customers/retailers end their contract with us.

Security Deposits will be collected and held for the purpose of being applied to the final utility bill.

SCOPE

This policy applies to all customers/retailers either opening a new account or those whose payment and/or collection activities become delinquent.

Retailer Prudential requirements will be covered within this policy and associated to London Hydro's Retailer Service Agreement.

DEFINITIONS

Disconnect or Collect Trip is a visit to a customer's premises by an employee or agent of London Hydro to demand payment of an outstanding amount or to shut off or limit distribution of electricity to the customer failing payment.

Good Payment History (GPH)

A Good Payment History, as determined by the OEB, is maintained by not having any of the events outlined in section 5.0 occur within a time period established for each customer class.

Interruption of Service Notice

An Interruption of Service notice is a formal letter delivered to the customer by London Hydro advising the customer that their hydro service may be cut for non-payment and that service beyond a date cannot be guaranteed. This is also known as a Collection Field trip notice.

Residential Customer

A residential customer is defined as either a Distributor Consolidated Retail Account or a Standard Service Supply (SSS) Residential Account. These customers typically live in houses or apartments and live in the premises as an owner or tenant, as defined in London Hydro's Condition of Service – Single Dwelling.

General Service <50kW

A commercial customer is defined by the OEB as a non-residential customer in a <50kW demand rate class. These customers are similar to the residential customer in that their bill does not have a demand component to it and their charges are based upon kWh of consumption. Most of these customers would occupy small storefront locations or offices.

General Service >50kW Demand and Interval Metered

A commercial customer is defined by the OEB as a non-residential customer in a >50kW demand rate class who is not a Large Commercial Customer. These customers have meters capable of measuring and recording peak demand and a customer in this rate class will have a demand component on their bill.

Large User Customer

A large commercial customer is defined by the OEB as a non-residential customer in a >5000kW demand rate class. These customers are some of the largest users of electricity in the London Hydro Service Area. Some of these customers may be direct market participants and contract for their electricity directly with the IMO.

LDC

A Local Distribution Company (LDC) is the regulated entity responsible for the distribution of electricity for a defined service area. London Hydro is the LDC for most of the London area.

OEB

The Ontario Energy Board (OEB) is the provincial government entity responsible for LDC regulation.

Returned Item

A returned item is defined as any method of payment offered by a bank. It will include any cheque or preauthorized payment that has been returned to London Hydro by the bank for any of the following reasons: a Stop Payment has been placed on the item, a Non Sufficient Funds reason was placed on the returned item, or the bank indicates that the funds have not been cleared. In summary, a returned item will be any item not honoured by the bank, including all forms of paper or electronic items.

External Credit Check

A credit check that demonstrates that they are a good credit risk from a company such as Equifax, TransUnion or Dun & Bradstreet.

Residential Customer

1.0 SECURITY REQUIREMENT

Security must be provided to London Hydro (LH) by all Residential customers that fail to qualify for a security deposit exception and are billed by London Hydro.

Exceptions:

- 1.01** All new customers who have a continuous 1 year (12 month) Good Payment History with either London Hydro, another Local Distribution Company or Gas Utility in Canada. If a customer is claiming an exception due to a payment history with a non London Hydro utility, the customer must provide a letter from that utility documenting a satisfactory payment history for the same legal entity. The good payment history must have occurred in the past 24 months in order to qualify for an exception. Thereafter, this exception will continue to apply as long as section 1.02 is complied with.
- 1.02** All existing customers that maintain a 1 year (12 month) Good Payment History with London Hydro.
- 1.03** All new customers, at the customer's expense, may provide an initial credit check that demonstrates they are a good credit risk, after which the customer must maintain a Good Payment History acceptable to London Hydro. Failure to maintain a satisfactory payment history will result in an immediate security review

2.0 AMOUNT OF SECURITY

The amount of the security will be based upon either of 2.01, 2.02 or 2.03:

- 2.01** All new residential customers subject to a security deposit will have an initial deposit of \$180 (\$280 for all electric heating) assessed, or as determined by sections 2.02–2.04 as applicable. In addition to the foregoing, for each water service at a location, customers will be billed a minimum deposit of \$100.
- 2.02** For a monthly-billed customer - The security deposit will be based on the average monthly load over the most recent twelve-month period prorated for 60 days (2 times the average monthly bill). Where an average monthly load for the customer is not available LH will calculate the load based upon its best estimate.

- 2.03** Where a customer is facing a security deposit requirement resulting from a poor payment history and where more than one disconnection notice has been issued, the amount of the security will be calculated on the highest monthly load occurring in the immediately preceding 12 months.
- 2.04** LH will review no less than annually and alter if necessary the deposit amount upon the occurrence of any of the following:
- a) Lack of maintenance of a Good Payment History;
 - b) Anniversary of service installation;
 - c) A rating deterioration under section 1.02; and/or
 - d) A significant consumption change. For example, if the original deposit is based upon historical consumption data that is inconsistent with consumption experienced with the current usage the amount of security will be adjusted once a new consumption pattern has been established.

Security must be in the form of cash or cheque.

3.0 WAIVER OF SECURITY REQUIREMENT

- 3.01** A customer who cannot qualify for an exception under 1.01 or 1.02 above will be eligible for a ½ reduction in the security amount calculation otherwise applicable, provided they sign up for a preauthorized payment plan.
- 3.02** Customers who withdraw from a preauthorized payment plan will be subject to an immediate security review and may be required to provide security under section 2.0.

Notwithstanding anything herein contained, all customers who qualify for a security waiver must maintain a GPH as defined by LH, or be required to undergo a security review.

4.0 RETURN OF SECURITY

All security requirements will be reviewed no less than annually. Cheques will only be issued after a final bill has been rendered and paid. All other security adjustments including refunds due to GPH will appear on the customer's next bill. All security deposits will be returned within 6 weeks after a final bill has been rendered and all amounts owed by the customer to LH have been paid. A final bill can only be rendered once LH has been notified of an account status change, a forwarding address has been supplied and a final read has been made at the service location.

General Service <50kW

1.0 SECURITY REQUIREMENT

Security must be provided to London Hydro ("LH") by all GS<50kW customers that fail to qualify for a security deposit exception and are billed by London Hydro.

Exceptions:

- 1.01** Federal, Provincial and Municipal governments, their agencies and their guarantees.
- 1.02** School Boards
- 1.03** All new customers who have a 5 year Good Payment History with either London Hydro, another Local Distribution Company or Gas Utility in Canada. If a customer is claiming an exception due to a payment history with a non London Hydro utility, the customer must provide a letter from that utility documenting a 5 year satisfactory payment history for the same legal entity. The payment history must include the period of the past 24 months in order to qualify for an exception. Thereafter, this exception will continue to apply as long as section 1.04 is complied with.
- 1.04** All existing customers that maintain a 5 year Good Payment History with London Hydro.
- 1.05** All new customers, at the customer's expense, may provide an initial credit check that demonstrates they are a good credit risk, after which the customer must maintain a good payment record acceptable to LH. Failure to maintain a Good Payment History will result in an immediate security review.

2.0 AMOUNT OF SECURITY

The amount of the security will be the following:

- 2.01** For a monthly billed customer. The average monthly load over the most recent twelve-month period prorated for 2.5 months (75 days). Where an average monthly load for the customer is not available LH will calculate the load based upon its best estimate.
- 2.02** Where a customer is facing a security deposit requirement resulting from a poor payment history and where more than one disconnection notice has been issued, the amount of security will be calculated on the highest monthly load occurring in the immediately preceding 12 months.

2.03 LH will review annually and alter if necessary the deposit amount upon the occurrence of the following:

- a) Lack of maintenance of a Good Payment History;
- b) Anniversary of service installation;
- c) A rating deterioration under section 1.04 where the customer, at their discretion, has supplied London Hydro with a new credit check report and/or;
- d) A significant consumption change. For example, if the original deposit is based upon historical consumption data that is inconsistent with consumption experienced with the current customer the amount of security will be adjusted once a new consumption pattern has been established

3.0 WAIVER OF SECURITY REQUIREMENT

A customer who cannot qualify for an exception under 1.03 or 1.04 above will be eligible for a ½ reduction in the security amount calculation once they have signed up for a preauthorized payment plan and have maintained a GPH, as defined by LH for 6 billings (i.e. PAP enrollment + 6 months GPH = ½ reduction in security). Should a partial refund of security be allowed under this policy it will be applied to their next bill.

Customers who withdraw from a preauthorized payment plan will be subject to an immediate security review and may be required to provide security under section 2.0.

Security, as chosen by the customer, must be in the form of cash, cheque, irrevocable and unconditional Letter of Credit, Bank Draft, or Surety Bond from a Bank as defined in the Bank Act, (Canada).

4.0 RETURN OF SECURITY

All security requirements will be reviewed no less than annually. Cheques will only be issued after a final bill has been rendered and paid. All other security adjustments including refunds due to GPH will appear on the customer's next bill. All security deposits will be returned within 6 weeks after a final bill has been rendered and all amounts owed by the customer to LH have been paid. A final bill can only be rendered once LH has been notified of an account status change, a forwarding address has been supplied and a final read has been made at the service location.

General Service >50kW Demand and Interval Metered

1.0 SECURITY REQUIREMENT

Security must be provided to London Hydro (LH) by all GS>50kW customers that fail to qualify for a security deposit exception and are billed by London Hydro.

Exceptions:

- 1.01** Federal, Provincial and Municipal governments, their agencies and their guarantees.
- 1.02** School Boards.
- 1.03** All customers who have a 7 year Good Payment History with either London Hydro, another Local Distribution Company or Gas Utility in Canada. If a customer is claiming an exception due to a payment history with a non London Hydro utility the customer must provide a letter from that utility documenting a satisfactory payment history for the same legal entity. Part of the payment history must include the period of the past 24 months in order to qualify for an exception.
- 1.04** At the customer's expense, in order to receive a partial exemption from security they may provide a credit check that demonstrates they are a good credit risk. In accordance with Section 2.4.5.2.1 (Conditions of Service), the amount of the initial security deposit may be partially decreased in direct proportion to the table in 3.0 after which the customer must maintain a Good Payment History acceptable to LH. Failure to maintain satisfactory payment history will result in an immediate security review.
- 1.05** As an alternative to the deposit requirement, the customer may choose an "Advanced Billing" option. On the first of the month, London Hydro will establish the dollar value of the highest peak billing and bill this amount with their next regular billing. These customers will always be in a one-month credit position. Where customers wish to fit this advance billing option within their budget cycle, London Hydro will offer a payment schedule of up to 6 months for the calculated amount. Failure to maintain payments will result in an immediate security review.

2.0 AMOUNT OF SECURITY

- 2.01** It is based upon the average monthly load over the most recent twelve-month period prorated over 75 days. Where an average monthly load for the customer is not available LH will calculate the load based upon its best estimate.

- 2.02** Where a customer is facing a security deposit requirement resulting from a poor payment history and where more than one disconnection notice has been issued, the amount of security will be calculated on the highest monthly load occurring in the immediately preceding 12 months.
- 2.03** A rating deterioration under section 2.4.8.4 (Conditions of Service) where the customer, at their discretion, has supplied London Hydro with a new credit check report.

Security, as chosen by the customer, must be in the form of cash, cheques, irrevocable and unconditional Letter of Credit, Bank Draft, or Surety Bond from a Bank as defined in the Bank Act, (Canada).

3.0 WAIVER OF SECURITY REQUIREMENT - CREDIT RATING

A customer who cannot qualify for an exception under 1.03 above will be eligible for a ½ reduction in the security amount calculation once they have signed up for a preauthorized payment plan and have maintained a GPH, as defined by LH for 6 billings (i.e. PAP enrollment + 6 months GPH = ½ reduction in security). Should a partial refund of security be allowed under this policy it will be applied to their next bill.

Where a customer has a credit rating from a recognized credit rating agency, the maximum amount of a security deposit, which the customer is required to pay, shall be reduced in accordance with the following table:

Credit rating <i>(Using Standard & Poor's Rating Terminology)</i>	Allowable Reduction Security Deposit
AAA- and above or equivalent	100%
AA-, AA, AA+ or equivalent	95%
A-, from A, A+ to below AA or equivalent	85%
BBB-, From BBB, BBB+ to below A or equivalent	75%
Below BBB- or equivalent	0%

4.0 RETURN OF SECURITY

All security requirements will be reviewed no less than annually. Cheques will only be issued after a final bill has been rendered and paid. All other security adjustments including refunds due to GPH will appear on the customer's next bill. All security deposits will be returned within 6 weeks after a final bill has been rendered and all amounts owed by the customer to LH have been paid. A final bill can only be rendered once LH has been notified of an account status change, a forwarding address has been supplied and a final read has been made at the service location.

Large User Customer

1.0 SECURITY REQUIREMENT

Security must be provided to London Hydro ("LH") by all Large User >5000kW customers that fail to qualify for a security deposit exception and are billed by London Hydro.

Exceptions:

- 1.01** Federal, Provincial and Municipal governments, their agencies and their guarantees.
- 1.02** School Boards.
- 1.03** All customers who have a 7 year Good Payment History with either London Hydro, another Local Distribution Company or Gas Utility in Canada. If a customer is claiming an exception due to a payment history with a non London Hydro utility the customer must provide a letter from that utility documenting a satisfactory payment history for the same legal entity. Part of the payment history must include the period of the past 24 months in order to qualify for an exception.

2.0 AMOUNT OF SECURITY

- 2.01** It is based upon the average monthly load over the most recent twelve-month period prorated over 75 days. Where an average monthly load for the customer is not available LH will calculate the load based upon its' best estimate.
- 2.02** Where a customer is facing a security deposit requirement resulting from a poor payment history and where more than one disconnection notice has been issued, the amount of security will be calculated on the highest monthly load occurring in the immediately preceding 12 months.
- 2.03** LH will review annually and alter if necessary the deposit amount upon the failure to maintain a GPH.

Security, as chosen by the customer, must be in the form of cash, cheques, irrevocable and unconditional Letter of Credit, Bank Draft, or Surety Bond from a Bank as defined in the Bank Act, (Canada).

3.0 WAIVER OF SECURITY REQUIREMENT

Where a customer has a credit rating from a recognized credit rating agency, the maximum amount of a security deposit, which the customer is required to pay, shall be reduced in accordance with the following table:

Credit rating <i>(Using Standard & Poor's Rating Terminology)</i>	Allowable Reduction Security Deposit
AAA- and above or equivalent	100%
AA-, AA, AA+ or equivalent	95%
A-, from A, A+ to below AA or equivalent	85%
BBB-, From BBB, BBB+ to below A or equivalent	75%
Below BBB- or equivalent	0%

Large user customers, once they have established a GPH for 7 years, are eligible for 50% refund of their security requirement.

4.0 RETURN OF SECURITY

All security requirements will be reviewed no less than annually. Cheques will only be issued after a final bill has been rendered and paid. All other security adjustments will appear on the customer's next bill. When a customer with security on file is eligible for a return of security due to its payment history, **50%** of the security will be returned.

Retailer Prudential Requirements

The Ontario Energy Board's "Retail Settlement Code", dictates a Distributor shall enter into security arrangements with each retailer.

All Retailers will provide a Prudential Security Deposit with London Hydro regardless of their Credit Rating.

The security value requirement, the type of security, and the planned frequency for prudential review for timing and updating will be set out in the "Retailer Service Agreement".

This prudential calculation will be reviewed every 3 months. We should anticipate +/- variances in each quarter.

General Rules

1.0 INTEREST ON SECURITY

Interest shall accrue monthly on security deposits made by way of cash or cheque commencing on receipt of the total deposit required by LH. The interest rate shall be at the Prime Business Rate as published on the Bank of Canada website less 2 percent, updated quarterly. The interest accrued to December 31st of each year shall be applied to the deposit principal and reported on the customer's first bill of each calendar year. Deposit interest is calculated and applied to customer's account on return of the security deposit or closure of the account, whichever comes first. A cheque will be issued only to those customers no longer in the London Hydro service area and whose final bill has been rendered and paid.

2.0 PAYMENT OF SECURITY

- Residential Customer - Should security be required, a customer has the option to pay the deposit over six monthly equal payments.
- General Service & Large Customers – Should security be required, a customer has the option to pay the deposit over four monthly equal payments.

3.0 OTHER CHARGES

Any and all additional charges such as returned item fees, disconnect and reconnection fees, and late payment charges, if any, will be in addition to the security deposit assessment.

4.0 COLLECTION PROCEDURES

Customers with overdue accounts, in addition to having to pay a security deposit, will be subject to the standard collection procedures of LH, including: notices of late payment, late payment penalties including interest charges on overdue payments, collection agency activity, notification of credit bureaus and termination of service as appropriate. Service may be terminated for non-payment of any balance (including the requested deposit) after proper notice has been given. Any payments made at the door of a customer must be made with certified cheque, money order or cash.

5.0 FAILURE TO KEEP RECORD OF GOOD PAYMENT

Customer Segment	Payment History Period Record
Residential	1 Year
GS<50KW (Commercial)	5 Year
GS>50KW (Demand/Interval)	7 Year
Large User	7 Year

The customer will no longer qualify as a customer with a Good Payment History and will be subject to an immediate security review if any of the following events occur:

5.01 Disconnection of Service

- Residential Customer – When a customer has 1 Disconnection of Service within the relevant period stated in the above table.
- General Service & Large Customer – When a customer has 1 Disconnection of Service within the relevant period stated in the above table.

5.02 Collect Trip (Field Collection Activity)

- Residential Customer – When a customer has received more than 2 or a customer has received 2 collect trips within the relevant period stated in the above table, and one of those collect trips having occurred in the last 90 days from the assessment date.
- General Service & Large Customer – When a customer has received more than 2 or a customer has received 2 collect trips within the relevant period stated in the above table and 1 of those collection trips having occurred in the last 3 years from the assessment date.

5.03 Returned Payment – “Insufficient Funds”

- Residential Customer – When a customer has had more than 2 or a customer has had 2 payments returned “Insufficient Funds” within the relevant period stated in the above table, and one of those returned payments having occurred in the last 90 days from the assessment date.
- General Service & Large Customer – When a customer has had 2 payments returned “Insufficient Funds” within the relevant period stated in the above table.

- 5.04** A customer may, no earlier than 12 months after the payment of a security deposit or on making prior demand for a review, demand in writing that

London Hydro undertake a review to determine whether the total (partial) amount of the security deposit is to be returned.

- 5.05** When a customer makes an assignment in bankruptcy or is petitioned into bankruptcy proceedings and receives court protection from creditors under any provincial or federal legislation or in any civil proceedings and has had activity that negatively impacts the payment history of the customer with London Hydro, a security deposit will be required from all such customers when court documents allow. If payment history becomes a “Good Payment History” dependent on the classification of the customer, refunds will apply within the required time lines. All customers under court protection will be subject to payment arrangements acceptable to LH.

6.0 DISCRETION CLAUSE

If extenuating circumstances exist and compelling reasons are demonstrated, an individual account will be reviewed by London Hydro and further accommodation may be provided.

THIS POLICY MAY BE CHANGED BY LONDON HYDRO IN ITS DISCRETION FROM TIME TO TIME AND WILL BE REVIEWED ANNUALLY.

OTHER TERMS AND CONDITIONS may apply. Please consult a London Hydro customer service representative for further details.